

# 2018 Farm Bill Dairy Margin Coverage Overview

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# The Farm Bill Process: USDA

- Bring in Task forces
- Study Farm Bill provisions. What has changed? What is new?
- What requires a decision to be made? Who makes it? Develop matrix of decisions with recommended options.
- Some decisions made by task force team members, others elevated to Deputy Administrator, Administrator, Undersecretary, or Secretary.
- What decisions require Secretary input? Use of premium hay for DMC is an example.



# The Farm Bill Process: USDA (continued)

- The mechanics:
  - Get decisions made; meet with FPAC, OGC, OBPA, OMB, Secretary
  - Create timelines
  - Write Federal Register documents
  - Brief Senate and House Agriculture Committees
  - Draft notices/handbooks
  - Develop software
  - Communications plan (brief producer groups, Congress)
  - Issue press releases
  - Develop National training, then train state staff



# Major 2018 Farm Bill Dairy Changes

- Rebranding: DMC replaces MPP
- Similar framework but significant changes made that reduce premiums and substantially increase expected payments
- MPP (2014-2017): CCC “made” money on MPP; producers paid \$77 million more in premiums than collected in payments (repayments letters to producers sent in May 2019)
- DMC: Payments expected to be more than \$1 billion per year



# DMC Changes from MPP-Dairy

- Tier 1 (5 million pounds): New coverage levels offered of \$9.50, \$9.00, and \$8.50—keeping pace with milk price increase
- DMC: choice of coverage between 5% and 95% of production history (was 25%-90% under MPP), opens up to mid size and larger producers in tier I
- 25% premium discount if operation locks-in coverage for 5 years



# DMC Changes from MPP-Dairy

- Repayments: If operation paid more in premiums than received in payments: choice of 50% cash or 75% credit to be applied to future premiums
- LGM: if producer was precluded from participating in 2018 MPP because of participation in LGM, producer can retroactively purchase 2018 MPP
- DMC Dairy Tool (University of Wisconsin): Today's results: Dairy with 8 million pound history and elects \$9.50 coverage pays \$7,500 in premiums and receives \$18,375 in payments. That assumes payments only for the first 6 months



# DMC Coverage Levels and Percentages

- CAT level coverage remains at \$4
- Higher levels of coverage at the \$8.50, \$9.00 and \$9.50 threshold levels have been added under Tier 1.
- Tier 2 coverage level thresholds remain at the same MPP-Dairy levels ranging from \$4 to \$8.
- New option: Dairy operations may choose differing Tier 2 coverage if the operation elects a coverage threshold of \$8.50, \$9.00, or \$9.50 in Tier 1.



# 2019 Premium Schedule

Coverage Level	Tier 1 Premium per cwt for covered production history at 5 mil lbs or less	Tier 2 Premium per cwt, all years for covered production history over 5 mil lbs
\$4.00	None	None
\$4.50	\$0.0025	\$0.0025
\$5.00	\$0.005	\$0.005
\$5.50	\$0.030	\$0.100
\$6.00	\$0.050	\$0.310
\$6.50	\$0.070	\$0.650
\$7.00	\$0.080	\$1.107
\$7.50	\$0.090	\$1.413
\$8.00	\$0.100	\$1.813
\$8.50	\$0.105	N/A
\$9.00	\$0.110	N/A
\$9.50	\$0.150	N/A



# DMC Coverage Elections

- Annual Coverage Election decisions
- 5 Year Lock-In Provisions



# DMC Coverage Elections Cont.

- MPP-Dairy required producers to make annual coverage elections and participate in the program for the duration of 2014 Farm Bill.
- Under DMC annual participation is not mandatory. Dairy Operations can make annual decisions if they would like to participate.



# DMC Coverage Elections Lock-In

- 5 year Lock-In of coverage election 2019-2023
- If locking-in, a 25 percent reduction in the premium is applied



# DMC Coverage Elections Lock-In

- Dairy Operations that have an approved PH have until September 20, 2019 to choose the lock-in option
- Dairy Operations that are creating production history for the first time can choose lock-in through the end of the 2022 coverage election period.



# Actual Dairy Production Margin

The margin is calculated monthly using:

- National all milk-price
- National average feed cost (corn, soybean meal, and alfalfa).



# Premium Calculation Example

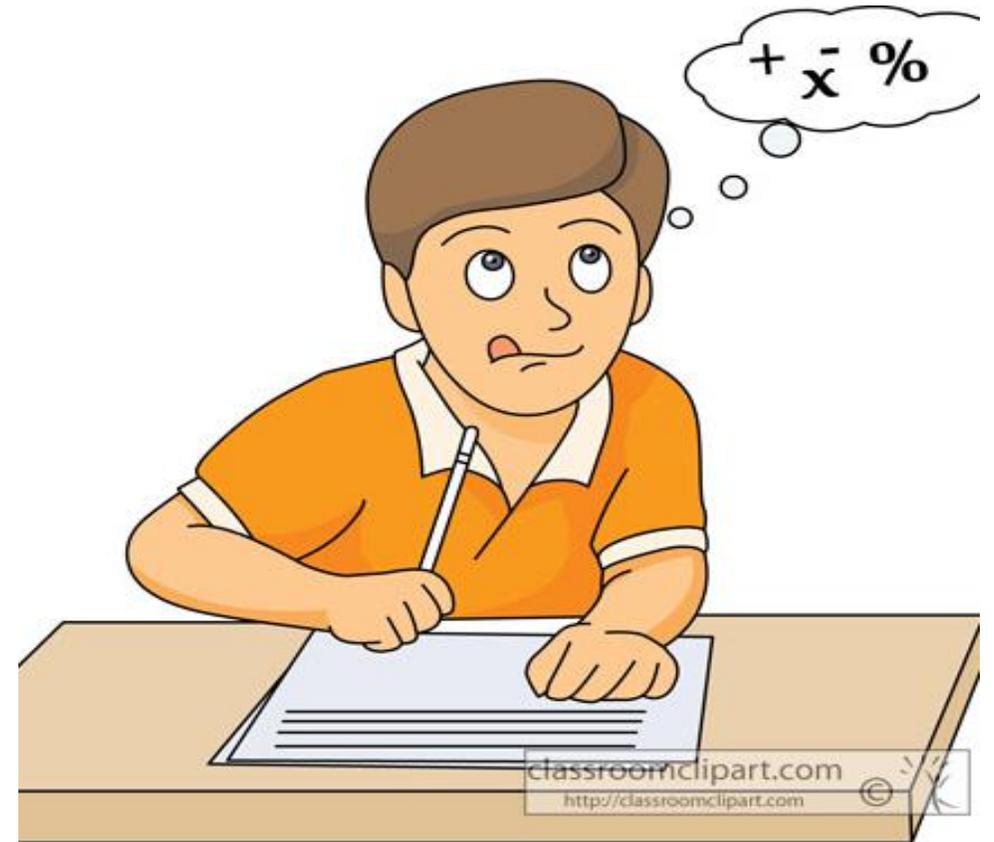
Anson's Dairy operation has an approved production history of 5,000,000 million lbs. and is wanting to make a coverage election at the \$9.50 level and covering 95% of their production.

# Premium Calculation Example (Non-Lock-in)

Annual Calculation:

- $5,000,000 \times 95\% = 4,750,000$
- $4,750,000 \div 100 = 47,500$
- $47,500 \times \$0.150 = \$7,125$

Annual Premium Total  $\$7125 \times 5 = \$35,625$

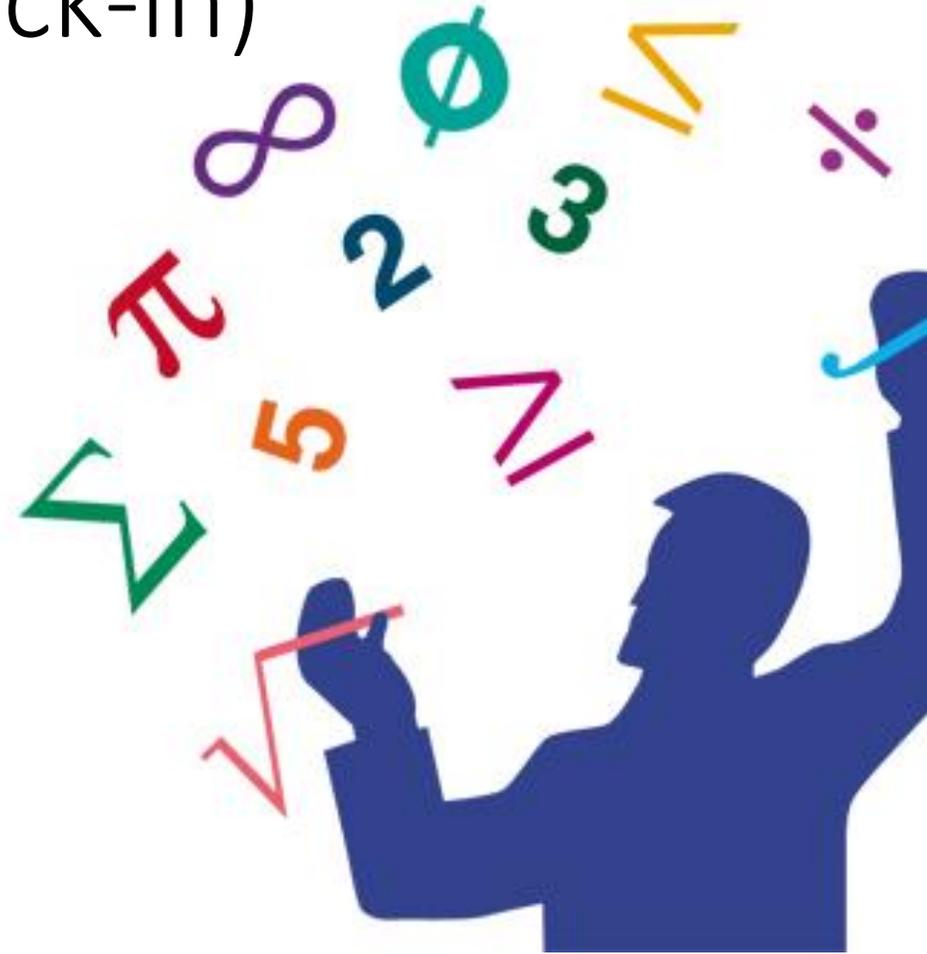


# Premium Calculation Example (Lock-in)

## 5 Year Lock-In Calculation:

- $5,000,000 \times 95\% = 4,750,000$
- $4,750,000 \div 100 = 47,500$
- $47,500 \times \$0.150 = \$7,125.00$
- $\$7,125 \times 75\% = \$5,343.75$

5 year Premium Total  $\$5,343.75 \times 5 = \$26,718.75$



# DMC Payment Calculation Example for 95% and \$9.50

➤ **January 2019 margin is \$7.99**

- $\$9.50 - \$7.99 = \$1.51$
- $5,000,000 \times 95\% = 4,750,000$
- $4,750,000 \div 100 = 47,500$  cwt.
- $47,500 \div 12 = 3,958$  cwt.
- $3,958 \times \$1.51 = \$5,976.58$
- $100\% \text{ Share} \times \$5,976.58 =$

➤ **\$5,976.58 payment for January 2019 (before 6.2% sequester)**





# DMC Purpose

DMC offers dairy producers:

- Catastrophic coverage, at no cost, except administrative fee
- Greater coverage at various levels for a premium, in addition to, the administrative fee.
- Provides a payment when “the margin” falls below a specified level.

# What is the Margin?

- The Margin is the difference between:
  - National All-Milk price
    - *Determined from the average price received per cwt of milk*
  - National Average Feed Cost
    - *Determined from the cost of feed used to produce a cwt of milk*



# Participating in DMC

## Dairy Operation **MUST**:

- Have Production History Established
- Register during election period
- Pay \$100 administrative fee, *if applicable*
- Select coverage level (\$4.00 - \$9.50) Tier 1
- Select coverage level (\$4.00-\$8.00) Tier 2, *if applicable*
- Select coverage % (5%-95%)



# Eligibility

The dairy operation **must**:

- Produce and commercially market milk from cows in the U.S.
- Not be a Fed/State/Local Government Agency

**Note: Can be enrolled in LGM-Dairy and Dairy Revenue Protection simultaneously.**



United States Department of Agriculture

**June 17 through September 20, 2019**

2019 Coverage  
Election Period





United States Department of Agriculture

# Annual Coverage Election Periods

**NO LATE FILE PROVISIONS**





# 2019 Coverage Election Period

A dairy operation may register for DMC:

- **Annually**

**OR**

- **1-time Election to Lock In for 5 years**

# 2019 Annual Registration

- Single year contract
- No program obligation to register in any subsequent year



# 2019 Lock-In Registration (Continued)

- Lock-In Election includes a 25% discount of premiums
- Lock-In Election is available only during 2019 enrollment period

***EXCEPT*** for a NEW dairy operation in a subsequent year that is enrolling for the first time in DMC may elect a lock-in operation under New DO Rules until 2022



# Premium Payment Due Dates

- Coverage Year 2019 - Due September 20, 2019
- Coverage Year 2020 – Due TBD
- Coverage Years 2021 – 2023 – Due September 1 of applicable coverage year



# Premium Discount Lock-In Option

- A dairy operation that elects to lock-in coverage for 2019 – 2023 will receive a 25% premium discount
- A dairy operation that locks in their coverage levels must maintain that level of coverage for 2019 – 2023 coverage years
- Will pay the annual premium by September 1 of each year
- MPP Premium Repayment Cash-Out or Credit decision is separate from premium lock-in discount



# MPP Credit Repayment Used for DMC Premium

- A dairy operation eligible to use an MPP calculated repayment credit
- DMC software will apply the MPP calculated repayment to the annual premium due until all credit has been applied
- The dairy operation is responsible to timely pay all remaining premiums due
- A dairy operation that dissolves during a lock-in period is not eligible to receive remaining credit as a “cash out” option



# MPP-Dairy Premium Repayment Provisions

- Authorized by the 2018 Farm Bill
- Announced in National Notice MPP-70
- Provides repayments equal to the difference between the total amount of 2014 thru 2017 premiums paid and payments received by the dairy operation for each applicable calendar year



# 2014-2017 MPP Premium Repayment Policy

An eligible dairy operation can elect to receive a repayment equal to either:

- 75 % of the total repayment as a credit to be used towards future Dairy Margin Coverage (DMC) Premiums (***Credit Option***)
- 50% of the total repayment as a direct cash repayment (***Cash Option***)

# 2019 Repayment Election Period

- May 8, 2019 - September 20, 2019
- Eligible Dairy Operation will make election on form CCC-785
- One time election allowed



# DMC Decision Tool

- ❖ The MPP Decision Tool has been updated for MPP-Dairy premium repayments and new DMC program coverage levels
- ❖ Located at: [www.fsa.usda.gov/dmc-tool](http://www.fsa.usda.gov/dmc-tool)
- ❖ Available for producers to run scenarios